

Memorandum



0000158080

TO: Docket Control
FROM: Michele Finical
DATE: 17 November 2014
RE: Notice of Final Rulemaking
RU-00000A-13-0294

RECEIVED
AZ CORP COMMISSION
DOCKET CONTROL

2014 NOV 17 PM 1 07

ORIGINAL

Attached is a copy of the Notice of Final Rulemaking amending the R14-2-103 filed this date with the Office of the Secretary of State.

Arizona Corporation Commission

DOCKETED

NOV 17 2014

DOCKETED BY	
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AGENCY CERTIFICATE

Notice of Final Rulemaking

SECRETARY OF STATE

2014 NOV 17 AM 11:49

FILED

1. **Agency name:** Arizona Corporation Commission
2. **Chapter heading:** Corporation Commission-Fixed Utilities
3. **Code citation for the Chapter:** 14 A.A.C. 2
4. **The Subchapters, if applicable; the Articles; the Parts, if applicable; and the Sections involved in the rulemaking, listed in alphabetical and numerical order:**

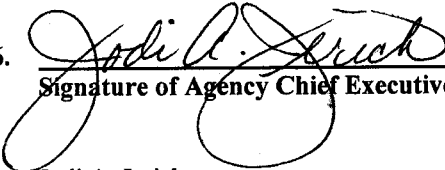
Subchapters, Articles, Parts, and Sections
(in alphabetical and numerical order)

Action:

R14-2-103

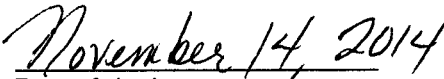
Amend

5. **The rules contained in this package are true and correct as proposed.**

6. 

Signature of Agency Chief Executive Officer
Jodi A. Jerich

Printed or typed name of signer



Date of signing

Executive Director

Title of signer

SECRETARY OF STATE

AGENCY RECEIPT

2014 NOV 17 AM 11:49

Notice of Final Rulemaking

FILED

1. Agency name: Arizona Corporation Commission
2. The Subchapters, if applicable; the Articles; the Parts, if applicable; and the Sections involved in the rulemaking, listed in alphabetical and numerical order:

Subchapters, Articles, Parts, and Sections
(in alphabetical and numerical order)

Action

R14-2-103

Amend

NOTICE OF FINAL RULEMAKING

TITLE 14. PUBLIC SERVICE CORPORATIONS; CORPORATIONS AND ASSOCIATIONS;

SECURITIES REGULATION

CHAPTER 2. CORPORATION COMMISSION FIXED UTILITIES

ARTICLE 1. GENERAL PROVISIONS.

PREAMBLE

1. **Sections Affected** **Rulemaking Action**

R14-2-103 Amend
2. **The specific authority for the rulemaking, including both the authorizing statute (general) and the statutes the rules are implementing (specific):**

Authorizing statute: Arizona Constitution article XV § 3; A.R.S. §§ 40-202; 40-203; 40-321, 40-322, 40-281, 40-282.

Implementing statute: Arizona Constitution article XV § 3; A.R.S. §§ 40-202; 40-203; 40-321, 40-322, 40-281, 40-282.
3. **The effective date of the rules:**

Sixty days after filing with the Secretary of State.
4. **A list of all previous notices appearing in the Register addressing the final rule:**

Notice of Rulemaking Docket Opening: April 18, 2014

Notice of Proposed Rulemaking: April 18, 2014
5. **The name and address of agency personnel with whom persons may communicate regarding the rulemaking:**

Name: Bridget A. Humphrey

 Matthew Laudone

 Attorneys, Legal Division, Arizona Corporation Commission

Address: 1200 West Washington Street

 Phoenix, Arizona 85007

Telephone: (602) 542-3402

Fax: (602) 542-4870

E-mail: bhumphrey@azcc.gov

mlaudone@azcc.gov

Name: John LeSueur

Assistant Director, Utilities Division, Arizona Corporation Commission

Address: 1200 West Washington Street

Phoenix, Arizona 85007

Telephone: (602) 542-4228

Fax: (602) 542-2129

E-mail: ljlesueur@azcc.gov

6. **An explanation of the rule, including the agency's reasons for initiating the rule:**

The proposed changes will update the annual in-state operating revenue thresholds that classify utilities as A, B, C, D or E, which have not been updated since their adoption by the Commission in Decision No. 57875 (May 18, 1992). Except for Telephone utilities, the proposed revenue thresholds would double the existing Class A threshold, triple the existing Class B threshold, quadruple the existing Class C threshold, and quintuple the existing Class D and E thresholds. Reclassifying Commission-regulated utilities in this manner will impact the applicability of other Commission rules, change rate case filing, accounting and time clock requirements, and the eligibility for submitting a rate case via a short form application.

7. **A reference to any study that the agency proposes to rely on in its evaluation of or justification for the proposed rule and where the public may obtain or review the study, all data underlying each study, any analysis of the study and other supporting material:**

None

8. **A showing of good cause why the rule is necessary to promote a statewide interest if the rule will diminish a previous grant of authority of a political subdivision of this state:**

Not applicable

9. **The Summary of the economic, small business, and consumer impact:**

NOTE – The Arizona Corporation Commission is exempt from the requirements of A.R.S. § 41-1055 relating to economic, small business, and consumer impact statements. See A.R.S. § 41-1057(2). However, under

A.R.S. § 41-1057(2), the Arizona Corporation Commission is required to prepare a "substantially similar" statement.

1. NEED:

The proposed rule changes are necessary to update the revenue thresholds used to establish the utility classifications. Proponents of the proposed rule changes believe they will reduce regulatory lag, streamline Commission processes and reduce rate case expense.

2. NAME AND ADDRESS OF AGENCY EMPLOYEE WHO MAY BE CONTACTED TO SUBMIT ADDITIONAL DATA ON THE INFORMATION INCLUDED IN THIS STATEMENT:

John LeSueur, Assistant Director, Utilities Division

Arizona Corporation Commission

1200 West Washington Street

Phoenix, Arizona 85007

Telephone Number (602) 542-4251; Fax Number (602) 542-2129

3. AFFECTED CLASSES OF PERSONS:

- A. Commission-regulated utilities
- B. customers of Commission-regulated utilities
- C. intervenors in utility rate cases
- D. Arizona Corporation Commission

4. RULE IMPACT ON AFFECTED CLASSES OF PERSONS:

- A. Fewer utilities must comply with the Commission's Affiliated Interests Rules, Energy Efficiency Rules, and Cooperative Streamlining Rules. Utilities' rate case filing, accounting and time clock requirements, and the eligibility for submitting a rate case via a short form application will change.
- B. Utility cases will be processed faster.
- C. The Commission will be required to process more utilities' rate cases within 120 days. Commission rules require the Commission to process Class E utility rate cases within 120

days. The number of Class E utilities will increase from approximately 200 to approximately 320.

5. COSTS AND BENEFITS TO THE AGENCY:

The Commission will have to process more utility rate cases within the 120 days.

6. COSTS AND BENEFITS TO POLITICAL SUBDIVISIONS:

There will be no impact to political subdivisions because the Commission does not have jurisdiction over political subdivisions and the Rules do not apply to them.

7. COSTS AND BENEFITS TO PRIVATE PERSONS:

Customers of utilities will benefit if rate case expense declines and if reducing regulatory lag improves the financial health and stability of regulated utilities. Customers and intervenors may be negatively impacted by having less time to scrutinize and participate in utility rate cases.

8. COST AND BENEFITS TO CONSUMERS OR USERS OF ANY PRODUCT OR SERVICE IN THE IMPLEMENTATION OF THE NEW RULES.

Not applicable.

9. LESS COSTLY OR INTRUSIVE METHODS:

The amendments to the rules are the least costly method for obtaining compliance with the updated standards and, with respect to the incorporated by reference materials, provide for the Commission's rules to be consistent with A.R.S. § 41-1028 and the rules of the Secretary of State.

10. ALTERNATIVE METHODS CONSIDERED:

There are no alternative methods available that promulgate adoption of the updated standards and, with respect to the incorporated by reference materials, provide for the Commission's rules to be consistent with A.R.S. § 41-1028 and the rules of the Secretary of State.

10. A description of the changes between the proposed rules, including supplemental notices, and final rules (if applicable):

None.

11. A summary of the comments made regarding the rule and the agency response to them:

The Commission did not receive any written comments on the Notice of Proposed Rulemaking. The oral comments received by the Commission after the publication of the Notice of Proposed Rulemaking are included in the following table, along with the Commission's response to each.

<u>Section</u>	<u>Public Comment</u>	<u>Commission Response</u>
Proposed Reclassification Rule Generally	Karen Nally of Camp Verde Water Systems, Inc. stated that the changes are necessary because the Rule 103 revenue thresholds have not been updated since 1992. She further stated that updated thresholds will streamline the Commission's processes and will help reduce rate case expense for small utilities.	The Commission acknowledges the supportive comments. No change is needed in response to these comments.
Proposed Reclassification Rule Generally	Tim Sabo of Roshka, Dewulf, & Patten spoke in favor of the NPRM. Mr. Sabo stated that he was not speaking on behalf of any particular client, as the utilities that will benefit the most from this rulemaking cannot afford to hire an attorney. He supports the rulemaking because a number of smaller utilities will be shifted into classifications where they can benefit from reduced filing requirements and streamlined rate case processes.	The Commission acknowledges the supportive comments. No change is needed in response to these comments.

12. Any other matters prescribed by statute that are applicable to the specific agency or to any specific rule or class of rules:

None

13. Incorporations by reference and their location in the rules:

None

14. Was this rule previously made as an emergency rule?

No.

15. The full text of the rules follows:

TITLE 14. PUBLIC SERVICE CORPORATIONS; CORPORATIONS AND ASSOCIATIONS; SECURITIES
REGULATION

CHAPTER 2. CORPORATION COMMISSION

FIXED UTILITIES

ARTICLE 1. GENERAL PROVISIONS

R14-2-103. Defining Filing Requirements in Support of a Request by a Public Service Corporation
Doing Business in Arizona for a Determination of the Value of Property of the Corporation
and of the Rate of Return Thereon, or in Support of Proposed Increased Rates or Charges

A. Purpose and definitions

1. No change
2. No change
3. No change
 - a. No change
 - b. No change
 - c. No change
 - d. No change
 - e. No change
 - f. No change
 - g. No change
 - h. No change
 - i. No change
 - j. No change
 - k. No change
 - l. No change
 - m. No change
 - n. No change
 - o. No change
 - p. No change
 - q. "Utilities" -- For purposes of the Section, utilities are electric, gas, telephone, water, sewer or any other that may be supplying service and/or commodities which in the future may be adjudged a public service corporation and under the jurisdiction of this Commission, are classified as follows:

Annual Operating Revenue					
	Class A	B	C	D	E
Electric & Gas	Exceeding	\$1,000,000 to	\$250,000 to	\$50,000 to	Less than
	\$5,000,000	\$5,000,000	\$999,000	\$249,999	\$50,000
	<u>10,000,000</u>	<u>3,000,000 to</u> <u>10,000,000</u>	<u>1,000,000 to</u> <u>2,999,999</u>	<u>250,000 to</u> <u>999,999</u>	<u>250,000</u>
Water & Sewer	Exceeding	\$1,000,000 to	\$250,000 to	\$50,000 to	Less than
	\$5,000,000	\$5,000,000	\$999,000	\$249,999	\$50,000
	<u>10,000,000</u>	<u>3,000,000 to</u> <u>10,000,000</u>	<u>1,000,000 to</u> <u>2,999,999</u>	<u>250,000 to</u> <u>999,999</u>	<u>250,000</u>
Telephone	Exceeding	\$250,000 to	\$100,000 to	\$25,000 to	Less than
	\$1,000,000	\$1,000,000	\$249,000	\$99,999	\$25,000
	<u>10,000,000</u>	<u>3,000,000 to</u> <u>10,000,000</u>	<u>1,000,000 to</u> <u>2,999,999</u>	<u>250,000 to</u> <u>999,999</u>	<u>250,000</u>

Annual operating revenues are those gross utility operating revenues derived from jurisdictional operations, including the requested rate relief. A combination utility is a

utility which provides more than one of the commodities or services enumerated in this subsection. For combination utilities, the annual operating revenue, including the requested rate relief, for the specific subsidiary, department, or operating division requesting the rate change shall be used for classification purposes.

r. No change

B. Filing requirements:

1. Information required from Class A, B, C and D utilities: The information required to be prepared and submitted by Class A, B, C and D Utilities in conjunction with a filing is presented below. Corresponding schedule formats are contained in the Appendix of this General Order and denoted. These formats are not applicable to Class E utilities. The Appendix schedule formats A-1 through A-5 are a part of this General Order, and the Applicant's schedules should conform to these formats. All other Appendix schedule formats and descriptions are illustrative and the applicant's specific formats may vary from that suggested in the Appendix. The substantive information requested, both on the Appendix schedule and in the body of this General Order, however, must be contained on the applicant's schedules together with the titles and schedule numbers provided in the Appendix. Specific information items requested on the Appendix schedules may be omitted without formal waiver, from the filing where it is evident that said items are not applicable to the applicant's business. The instructions and notes contained on the Appendix schedules shall be followed where applicable. Reconstruction Cost New Depreciated information not filed by the applicant shall be deemed waived.

Information	Filing Required by	Appendix Schedule Reference(s)
A. Summary Information:		
1. A summary of the increase in revenue requirements and the spread of the revenue increase by customer classification.	All classes	A-1
2. A summary of the results of operations for the test year and for the test year and the 2 fiscal years ended prior to the end of the test year, compared with the projected year.	All classes	A-2
3. A summary of the capital structure for the test year and the 2 fiscal years ended prior to the end of the test year, compared with the projected year.	Classes A & B	A-3
4. Construction expenditures and gross utility plant in service for the test year and the 2 fiscal years ended prior to the end of the test year, compared with the projected year.	All classes	A-4
5. A summary of changes in financial position for the test year and the 2 fiscal years ended prior to the end of the test year, compared with the projected year.	Classes A & B	A-5
B. Rate Base Information:		
1. A schedule showing the elements of original cost and RCND rate bases.	All classes	B-1
2. A schedule listing pro forma adjustments to gross plant in service and accumulated depreciation for the original cost rate base.	All classes	B-2
3. A schedule showing pro forma adjustments to gross plant in service and accumulated depreciation for the RCND rate base.	All classes	B-3
4. A schedule demonstrating the determination of reproduction cost new less depreciation at the end of the test period.	All classes	B-4

5. A schedule showing the computation of working capital allowance.	All classes	B-5
C. Test Year Income Statements:		
1. A test year income statement, with pro form adjustments.	All classes	C-1
2. A schedule showing the detail of all pro forma adjustments.	All classes	C-2
3. A schedule showing the incremental taxes and other expenses on gross revenues and the computation of an incremental gross revenue conversion factor.	All classes	C-3
D. Cost of Capital Information:		
1. A schedule summarizing the elements in the capital structure at the end of the test year and the projected year, their related costs and the computation of the total cost of capital.	All classes	D-1
2. A schedule showing the detail of long-term and short-term debt at the end of the test year and the projected year and their total cost.	Classes A & B	D-2
3. A schedule showing the detail of preferred stock at the end of the test year and the projected year, and their total cost.	Classes A & B	D-3
4. A schedule summarizing conclusions of the required return on the common equity as of the end of the test year and the projected year.	Classes A & B	D-4
E. Financial Statements and Statistical Data:		
1. Comparative balance sheets for the end of the test year and the 2 fiscal years ended prior to the end of the test year.	All classes	E-1
2. Comparative income statements for the test year and the 2 fiscal years ended prior to the end of the test year.	All classes	E-2
3. Comparative statements of changes in financial position for the test year and the 2 fiscal years ended prior to the end of the test year.	Classes A & B	E-3
4. Statements of changes in stockholder's equity for the test year and the 2 fiscal years ended prior to the end of the test year.	Classes A & B	E-4
5. A comparative schedule showing by detail account number, utility plant balances at the end of the test year and the end of prior fiscal year.	All classes	E-5
6. Comparative departmental statements of operating income for the test year and the 2 fiscal years ended prior to the end of the test year.	All classes of combination utilities	E-6
7. Comparative operating statistics on customers, consumption, revenues, and expenses for the test year and the 2 fiscal years ended prior to the end of the test year.	All classes	E-7
8. A comparative schedule of all significant taxes charged to operations for the test year and the 2 fiscal years ended prior to the end of the test year.	All classes except Class D	E-8
9. Audited financial statements, if available, for the test year and the 2 fiscal years ended prior to the end of the test year. If the financial statements have not been audited, notes to the financial statements should be provided to indicate accounting method, depreciation lives and methods, income tax treatment and other important disclosures.	All classes	E-9
F. Projections and Forecasts:		
1. A projected income statement for the projected year compared with actual test year results, at present rates and proposed rates.	All classes	F-1
2. Projected changes in financial position for the projected year compared with the test year, at present rates and proposed rates.	Classes A & B	F-1
3. Projected annual construction requirements, by property classification, for 1 to 3 years subsequent to the test year, compared with the test year.	Classes A & B 3 years Classes C & D 1 year	F-3
4. Important assumptions used in preparing forecasts and projections.	All classes	F-4
G. Cost of Service Information		
A utility shall submit cost of service analyses and studies if all of the following conditions prevail:		
1. The utility is in a segment of the utility industry that recognizes cost of service studies as important tools for rate design.		
2. Costs incurred by the utility are likely to vary significantly from 1 defined segment of customers to another.		
A historical accounting period other than the test year may be used for cost of service purposes provided that customer mix in the historical period used is representative of the test year. When a cost of service analysis is required, the following information shall be submitted:		
1. Schedule showing rates of return by customer classification at present and proposed rates.	Classes A, B and C if applicable	G-1 G-2

2. Schedules showing the approach used in allocating or assigning plant and expenses to classes of service and defined functions.	Classes A, B and C if applicable	G-3 G-4 G-5 G-6
3. Schedules showing the development of all allocation factors used in the all allocation factors used in the cost of service study.	Classes A, B and C if applicable	G-7
H. Effect of Proposed Rate Schedules:		
1. A comparison of revenues by customer classification or other classification of revenues for the test year, at present and proposed rates.	All classes	H-1
2. A comparison of revenues by class of service and by rate schedule for the test year, at present and proposed rates.	Classes A & B	H-2
3. A comparison of present and proposed rate schedules or representative rate schedules.	Class A representative schedules; Classes B, C and D - all schedules	H-3
4. Typical bill analysis	All classes	H-4
5. Bill count	All classes	H-5

2. Information required from Class E Utilities: The information required to be prepared and submitted by a Class E Utility in support of a filing is as follows:

- a. A statement of income for the test year similar in format to Schedule C-1 or E-2.
- b. A balance sheet as of the end of the test year similar in format to Schedule E-1.
- c. Utility plant account balances at the end of the test year similar in format to Schedule E-5.
- d. An estimate of new investment in utility plant to be added in the projected year.
- e. A schedule of current rates and proposed rates and the additional revenues to be derived from the proposed rates.

The appendix schedules shall be used as guides in presenting the information specified in this subsection.

3. No change
4. No change
5. No change
6. No change
7. No change
8. No change
9. No change
10. No change
11. No change

Appendix. Arizona Corporation Commission; Regulation R14-2-103; Rate Application Filing Requirements; Index of Schedules
No change